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A.I.D. Technical Report No. 18  
(Document Order No. PN-AAX-278)

Export and Investment Promotion  
Services

Service Use and Its Impact on Export Performance: Results of the  
Asia Surveys

by

Jennifer Bremer  
Nathan Associates, Inc.

Charles Bell  
Development Economics Group  
Louis Berger International, Inc.

Cressida McKean  
Assessment Manager

Center for Development Information and Evaluation  
U.S. Agency for International Development

February 1994

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## FOREWORD

Recent economic literature strongly suggests that outward-oriented economies with sound trade, investment, and export systems have achieved better development results than inward-oriented economies. The U.S. Agency for International Development (A.I.D.) has devoted substantial resources to supporting outward-oriented growth through projects focused on export and investment promotion. Key questions facing donors are the following: Is export and investment promotion assistance worthwhile? Does it merit continued A.I.D. support?

The Center for Development Information and Evaluation (CDIE) conducted a worldwide assessment of A.I.D.'s experience with export and investment promotion services. The purpose of the assessment was to evaluate the contribution of intermediaries providing services to exporters in developing countries, including such services as information (e.g., on foreign markets), contact making (e.g., with buyers), deal making, technical assistance, and government facilitation. Issues analyzed included the rationale for donor intervention; the impact of intervention on exports, jobs, and the market for support services; the return on A.I.D.'s investment; effective service strategies and service providers. The analysis was based on surveys of exporters in six countries, extensive interviews with service providers,

and other sources.

For the assessment, CDIE focused initially on export and investment promotion projects in the Latin America and the Caribbean region. A desk review examining 15 projects resulted in the report Promoting Trade and Investment in Constrained Environments: A.I.D. Experience in Latin America and the Caribbean, A.I.D. Evaluation Special Study No. 69. CDIE followed up with field visits to Guatemala, the Dominican Republic, Costa Rica, and Chile, which culminated in the synthesis report Export and Investment Promotion: Sustainability and Effective Service Delivery, A.I.D. Program and Operations Assessment Report No. 2. In 1991, CDIE initiated fieldwork in Asia, examining programs in India, Indonesia, Korea, and Thailand. Four country reports were produced for the Asia phase of the assessment. This paper is one of two cross-cutting technical reports. The other is Measuring Costs and Benefits of Export Promotion Projects. In addition, CDIE undertook a desk review of similar projects in the Near East region resulting in the report "A Review of A.I.D. Experience with Export and Investment Promotion in Egypt and Morocco." The program assessment report Export and Investment Promotion Services: Do They Make A Difference? (forthcoming) draws on each of these technical reports to present key findings, conclusions, and management implications.

## SUMMARY

This paper summarizes responses from a survey of 131 exporting firms in three Asian countries—India, Indonesia, and Thailand. The firms were questioned about their use of 33 services, ranging from foreign market information to technical assistance for production, typically regarded as important to exporting or to export-related foreign investment. For each service used, the firm was asked to identify the source of the service and the service's value to the firm's export success. Three-fourths of the firms were randomly selected from lists of exporters in each country; one-fourth were firms assisted under U.S. Agency for International Development (A.I.D.)-funded projects.

The survey demonstrated that support services play a vital role in encouraging new entrants into exporting and in assisting foreign investors. Private sector sources of services were most crucial, and government promotion agencies played only a limited role. Within the private sector, business partners and buyers were the most important link, but nonprofit private sources were also significant. Professional service firms

(attorneys, consulting firms, and so on) were not an important source for most of the services studied. Government sources were most useful to foreign investors for basic information early in the decision process, and, for local firms, government sources were helpful in making initial contact with buyers.

The survey found that the characteristics of receiving firms made no important difference in service use and impact, except when comparing local exporters with foreign-owned firms. Agribusiness and manufacturing firms, firms in different countries, and participants and nonparticipants in A.I.D.-supported programs behaved similarly.

For local firms, the single most important step in becoming an exporter is finding an interested buyer. The buyer usually becomes the most important source of additional assistance for the local firm, providing, in particular, technical assistance for production, information on foreign-market requirements and opportunities, and help in preparing samples. Local firms generally use outside sources to help find a buyer. Buyers and foreign partners themselves were the main source of this assistance, approaching local firms identified through personal contacts or directories of local firms. Government assistance was particularly valued for trade shows (26 percent of local firms received this service and said it had an impact). Private sources (personal contacts, chambers of commerce, and associations) were also effective sources of buyer contacts.

Foreign firms and joint ventures relied less on government assistance. In fact, government provided only 8 percent of key services received by international firms. The typical route to a foreign investment or joint venture in Asia was to build on earlier business or personal contacts. Several exporters or importers turned to a foreign customer or supplier to develop a joint venture. Another common route to success, particularly in Thailand, was a new startup by a former employee of an exporting firm, drawing on previous contacts and experience.

The survey data suggests three basic findings. First, firms rely on their network of business associates for their primary source of assistance. Business partners, including distributors, suppliers, customers, formal joint venture partners, informal contacts, are providers of key services. Second, business relationships grow and evolve over time. Although export promotion and investment promotion are different in the short term, the distinction between them blurs over the long term because of the importance of close business ties. For example, an existing

agency distributor relationship is one of the most likely sources for a joint venture to manufacture in country. Firms seeking to manufacture overseas naturally turn first to business partners they know and trust. Finally, international ventures are fragile in their early stage. They tend to fall apart before they get going, particularly if large distances (physical or cultural) are involved. This fragility may be one reason that for profit professional services firms stay out of the investment process until it is well along the road to startup.

## GLOSSARY

- A.I.D. U.S. Agency for International Development
- BKPM Indonesian Board of Investment Coordination
- BOI Thailand Board of Investment
- CBI Caribbean Basin Initiative
- CDIE Center for Development Information and Evaluation, A.I.D.
- PACT Program for the Advancement of Commercial Technology in India
- NAFED National Agency for Export Development, Indonesia

## 1. INTRODUCTION

### Issues in Investment and Export Promotion

Institutions promoting exports and investment have received substantial assistance from the U.S. Agency for International Development (A.I.D.) over the past 10 years and have been a focal point of A.I.D.'s private sector assistance strategy worldwide. As A.I.D.'s trade and investment portfolio evolves, A.I.D. must seek ways to ensure impact and effectiveness of these programs. Export and investment promotion programs supported by A.I.D. have generally included three components, in varying combinations:

1. Direct services, such as technical assistance, information, deal making, and training, to potential or current investors and exporters
2. General promotion of foreign investment and export expansion through programs, such as

advertising campaigns and distribution of literature

3. Policy-related activities to identify policy impediments and encourage governments to adopt investment priorities, regulatory change, and policies that support exports and foreign investment

This paper focuses primarily on direct services assistance to export-oriented firms in Asia and generally does not address general promotion and policy-related activities. Although in practice the line between direct services and indirect support to investment and trade is not always sharply defined, the distinction between general promotion and services to specific firms remains a useful one, as has been emphasized elsewhere (see, for example, Wells and Windt 1988).

This section provides background on A.I.D.'s export and investment promotion efforts and lays out the approach used for the Asia survey. The following section summarizes the principal findings. The last section discusses the match between the mix of services provided and those sought by firms, looking especially at evidence of potential roles for government in filling gaps left by private service providers.

Appendix A presents in more detail the findings and the data on which those findings are based. It discusses service use at the firm level, the overall impact of services on firm performance, and the role of alternative service providers. The paper does not discuss the findings on management implications for A.I.D.; these are discussed in the final synthesis report "Export and Investment Promotion Services: Do They Make a Difference?"

## Background

A.I.D.'s support for export and investment promotion services in developing countries spans the last three decades. In an early phase, A.I.D.'s approach was to focus on policy reform to achieve macroeconomic stability while "filling the gaps" that investors and exporters faced by creating public trade- and investment-promotion institutions and providing highly targeted assistance to individual firms. Again, in the 1980s, A.I.D.'s efforts reflected the conclusion that policy reform alone could not rapidly create the conditions necessary for dynamic outward-oriented growth.

Donor-subsidized services aimed at providing firms

investing in or exporting from developing countries with greater access to information about foreign markets or the investment climate; technical assistance; training; and, in some cases, a more dynamic, competitive service-provider market. The anticipated result was more investment in export-oriented firms and a higher rate of nontraditional export growth, followed by higher foreign exchange earnings and improved generation of employment.

#### A.I.D.-Supported Programs in Asia

The principal projects examined in Asia as part of the Center for Development Information and Evaluation's (CDIE) assessment include the Program for the Advancement of Commercial Technology (PACT) in India, assistance to the Indonesian Board of Investment Coordination (BKPM) under the Private Sector Development project, and assistance to the Thailand Board of Investment (BOI) under the Private Sector in Development project. All three projects were initiated before 1985, received total funding of between \$2 million and \$10 million, and supported a narrowly focused program of services to domestic and foreign firms. All except PACT have been completed. CDIE selected only completed projects or those nearing completion to assess program impact. Still, all three projects were experiments and were comparatively modest in size, relative to the export economies of the countries studied and the investment and export promotion programs implemented about the same time in other regions—particularly those under the Caribbean Basin Initiative (CBI) (see A.I.D. 1992).

#### Key Questions for Evaluating Service Use and Impact

CDIE's assessment addresses three sets of issues that lie at the heart of program design for both the promotional institutions and donors considering financial support to them. This paper, which examines the Asia survey data, is organized around these issues:

1. Service use and impact. What services have been most heavily used? Which services have been most valuable to firms? How has service use differed among different types of firms? Has assistance made a difference in firm performance or investment decisions?
2. Source of services. Which services have been provided by government agencies. Which have been obtained from private sources? How important have these agencies been as providers of services viewed as having an

impact by the firms?

3. Service strategies. Does the service mix offered by government agencies match firm needs? Do government agencies and other A.I.D.-supported programs supplement or compete with private sources of services?

## Study Approach To Resolving These Questions

### Overview of the Methodology

To develop firm-level evidence on service use and impact, service source, and service strategies, CDIE conducted country case studies in India, Indonesia, and Thailand. In each country, evaluation teams interviewed exporters, foreign investors, government officials, and a wide variety of service providers, both in the private and public sectors. A formal survey of 131 exporting firms was conducted, using a standard questionnaire administered in personal interviews. Followup telephone interviews were also conducted with a cross section of U.S. companies participating in the assistance programs or conducting business in Asia. In addition, CDIE conducted an assessment of export promotion in Korea between 1961 and 1973, which included a review of the literature, interviews with individuals involved in A.I.D. assistance to Korea during that embryonic period, and informal interviews with Korean firms. (CDIE country reports provide more detail on export promotion in India, Indonesia, Korea, and Thailand; see Appendix D for list of the country reports prepared for the export and investment evaluation.) CDIE had previously carried out the same survey in three countries in the Caribbean region—Costa Rica, the Dominican Republic, and Guatemala—and presented its analysis in the report *Export and Investment Promotion: Sustainability and Effective Service Delivery*, A.I.D. Program and Operations Assessment Report No. 2. The final CDIE assessment report *Export and Investment Promotion Services: Do They Make a Difference?* (forthcoming) compiles survey data and compares findings across countries and regions.

Key characteristics of firms in the Asia sample are summarized in Table 1. The sample selected for each country survey is considered reasonably representative of export firms in that country, although time and resource limitations made it impractical to construct a fully random sample. The study universe includes all assisted firms identified by promotional organizations and firms selected randomly from lists compiled by export associations and government agencies or from other lists of



exporters.{Footnote 1}

### Terminology Used in the Study

There are no commonly accepted definitions of services used by potential exporters and investors. The team therefore developed a set of definitions that covered categories of firms receiving services and of the services themselves (see Box 1). To help the reader understand and interpret the study findings on service categories, however, it is important to clarify how services were defined and grouped.

The service categories follow the taxonomy developed in the earlier study of Latin America and use five general categories that roughly correspond to the stages of the investment or export-entry process. As companies identify opportunities, determine feasibility, and then begin implementation, the information and assistance (internal or external) needs of company managers change. The phases of this process are not rigidly defined nor is a timetable set, but the process does have an internal logic that makes it possible to group services. The 33 services used in this paper were grouped into five categories: information, private sector contacts, preinvestment or preexport support, technical assistance and training, and government facilitation. The five categories and the specific services included in each category are shown in Box 2.

For brevity the term "private contacts" may be used instead of "private sector contact making," and the term "startup support" may be used instead of the more accurate but cumbersome "preinvestment/export support services."

Throughout the discussion, reference is made to firm ratings of impact or service usefulness on a four point scale: 1 (useless), 2 (useful), 3 (very useful), and 4 (critical). Services ranked 3 or 4 by firms were considered to have had an impact in the firm's estimation; those ranked 1 or 2 were not.

If a firm made the effort to identify and use a service, and if the manager reports that the service had an impact on the firm's export success or was critical in going forward with an investment, it seems reasonable to conclude that the firm "needed" and "valued" the service. These terms are therefore used in this paper when the firms' responses appear to merit them. Whether the service met the expectations of firms is another question.

## 2. PRINCIPAL FINDINGS

## Services and Assistance Strategies

The survey of firms (local or foreign-owned) exporting from Asia demonstrates that support services play a vital role in encouraging new entrants into the export market and in assisting foreign firms to invest in these rapidly growing economies. The survey found that private investors and exporters in Asia rely primarily on private sector channels for assistance but with limited use of government services to support their export and investment initiatives. Private sector business partners and nonprofit private sources provided most of the nongovernmental services used. Professional service firms (e.g., attorneys and consulting firms) were not an important source for most of the services studied.

The survey confirmed that, in most respects, locally owned and foreign-owned exporters differed in the way they used services and generally relied on different sources for the assistance they thought they needed. However, there were two key similarities:

1. Most firms were able to obtain valuable help from private sector sources, particularly from their foreign buyers, foreign or local partners, and private contacts in the business community.
2. Firms relied on government support primarily for basic information early in the decision process. (Local firms also found government services very useful in helping them make initial contact with buyers. U.S. firms used U.S. Government sources for this purpose).

Rapid economic growth in Asia has fostered the proliferation of local firms with growing productive capabilities. This base of production capacity may create the potential for large payoffs on basic export information and "introduction" services that help local firms link up with overseas partners for export or investment.

The survey did not find important differences in service use and impact based on characteristics of the receiving firm, other than the differences between local exporters and foreign-owned firms. Agribusiness and manufacturing firms, firms in different countries, and participants and nonparticipants in A.I.D.-supported programs all behaved similarly.

Export Promotion: Support Services Used by Local Firms

The survey provides a clear picture of which services local firms need in order to enter or expand export markets and where they get the services from. The single most important step in becoming an exporter is finding an interested buyer. The buyer usually becomes the most important source of additional assistance for the local firm, providing, in particular, technical assistance for production, information on foreign market requirements and opportunities, and help in preparing samples.

Local firms generally use outside sources to find a buyer. Forty-five percent of local firms surveyed considered the buyer assistance they received from outside sources as effective. Buyers and foreign partners themselves were the main source for this assistance, having identified local firms through personal contacts or directories of local firms.

However, government and private sources were also important in locating buyers. Government assistance was particularly valued for trade shows (26 percent of local firms received this service and cited it as having had an impact). Private sources (e.g., personal contacts, chambers of commerce, and associations) were also effective in finding buyers. But rather than using trade shows they helped firms find buyers directly or by providing them with directories. Private for-pay services played a minimal role in this process.

Government information, particularly overall information on regulations and markets, information on the business sector, and other information on the market, was valuable to local firms. Although buyers and partners were the most important source of information that made a difference (providing about one-half of such assistance), government sources accounted for one-third of such help.

#### Foreign Firms: Promoting Foreign Investment

A very different picture emerges for foreign firms and joint ventures. In the countries studied, such firms gave almost no credit to government assistance. Government provided international firms with only 8 percent of key services used, which was less than 0.3 services per firm (excluding customs help). No service provided by government was cited by more than 1 or 2 of the 35 international firms surveyed (except customs assistance, cited by 4 firms). Only 2 of the 12 international firms surveyed in Thailand cited government assistance (by BOI or a foreign donor) as having contributed to bringing the firm to Thailand.

Chambers of commerce, associations, and private consultants played a modest role in providing services to foreign firms in the early stages of the investment process. Fourteen percent of international firms cited assistance with directories or deal making from private sources. Fifteen to 20 percent of international firms received assistance they judged effective from private firms in the later stages of the process, notably assistance in completing feasibility studies, in dealing with legal and accounting issues, and in obtaining government approvals.

The typical route to a foreign investment or joint venture in Asia was to build on earlier business or personal contacts. Several exporters or importers turned to a foreign customer or supplier to develop a joint venture. Another common route to success, particularly in Thailand, was a new startup by a former employee of an exporting firm, drawing on previous contacts and experience.

Although government assistance did not play a role in providing services later in the investment process (after a local partner or local opportunity was located), government was a modestly important source of support in the early information-gathering and contact-making stages of the decision process, to some extent in Thailand, less so in Indonesia, and minimally in India. The followup interviews with U.S. firms with business interests in Asia indicated that government plays a service-provider role in Asia but generally is relied on less than local business partners.

### Service Use and Impact

Firms used support services most in making contacts with potential partners, customers, and suppliers, followed closely by use of information services, and then technical assistance. Firms were more likely to use outside sources for information than for contact making, however.

### Different Types of Firms Used Different Services

Agribusiness firms used more services and were slightly more reliant on outside assistance than were manufacturing firms. The differences were particularly striking for information and contact making. Manufacturing firms used more assistance in dealing with government, however. Across the board, international firms (joint ventures and foreign subsidiaries) were more likely than local firms to use each of the services studied. In particular,

international firms drew on twice as many services to deal with government and in the startup phase.

### Services Had an Impact

Firms considered most of the services they received to have been valuable. For the 19 most heavily used services, {Footnote 2} firms rated nearly three-fourths of them as having had an impact on the recipient firm's success. The ratings were broadly consistent across all categories of firms and services received. At least one-half of all users rated all of these heavily used services as having had an impact; more than 80 percent said 8 of the 19 services had an impact.

### Information Was the Most Valued Service

Information, particularly about foreign markets, emerged as the most important category of service. One-third of all services cited by firms as having had an impact fell into this category (considering only those services provided by sources outside of the firm). Firms ranked assistance in making contact with other firms as the second most important category of service, followed by technical assistance. Startup assistance and help in dealing with government were relatively less valued. These patterns held across all categories of firms surveyed.

Five specific services accounted for roughly 40 percent of all services having had an impact, and three of these were categorized as information services. As shown in Table 2, these five services were used by a large proportion of local and international firms.

### Impact of Services on Exporters' Performance

The Asia survey showed very limited impact of the A.I.D.-supported programs on exports and employment growth. In general, A.I.D.-assisted firms were less export-oriented than the random sample: randomly selected firms exported 81 percent of their output compared with 51 percent for A.I.D.-assisted firms. One reason for this was that A.I.D. focused much of its efforts on assisting local import-substitution firms to join with foreign firms to get into exporting. Despite this lower export concentration, the A.I.D.-supported firms did not use more services; on the contrary, they actually received fewer services than did other firms. The high use of government services by other firms is attributable in part to the presence in the sample of a large number of local firms that used highly rated

government programs other than the A.I.D.-assisted programs (notably the Department of Export Promotion program in Thailand and the National Agency for Export Development program in Indonesia).

The survey found that A.I.D.-assisted firms performed no better than other firms and did not use a different mix of services. The performance of the two groups was about the same over the past 5 years, with exports growing 23 to 24 percent annually (in current dollar terms) and employment growing 19 to 22 percent. However, A.I.D.-assisted firms anticipate somewhat greater growth in exports and employment over the next 5 years than do the other firms.

### Alternative Service Providers

The analysis of alternative service providers focused on four categories of providers: buyers and foreign partners, local government agencies, other private sector suppliers, and the firm itself. {Footnote 3} This discussion focuses on the first three of these, excluding services that the firm provided for itself using its own staff. {Footnote 4}

The study findings demonstrate that foreign buyers and foreign partners are the single most important source of assistance valued by exporting firms, as shown in Table 3. Foreign buyers and partners concentrate their assistance on the services most likely to matter (information and technical assistance) and provide services more closely attuned to the needs of the firm. Overall, 88 percent of the services provided by buyers and partners were rated as having had an impact by the firms surveyed (compared with 65 percent for government providers and 73 percent for other private sources). Moreover, buyers and partners provided 42 percent of all services having had an impact (compared with 25 percent for government and 33 percent for other private sources).

The exporting firms surveyed did not view government agencies as major contributors to their success. When asked to allocate 100 points among all sources of assistance that contributed to firm success, including their own efforts, government programs received poor marks. Firms placed much greater importance on their own contributions and those of their private sector partners (buyers, partners, and trading companies), as shown in Table 4. However, government played a larger role in providing services than the private sector did. In particular, professional-services firms played a minimal role. {Footnote 5}

Overall, the quality of services provided by

buyers and foreign partners and by private sector sources was rated somewhat more highly than the quality of services from government. Firms generally expressed a fairly low opinion of government assistance programs. Only one of the government providers, the Thai Department of Export Promotion, rated a "good" from the firms surveyed. None of the A.I.D.-assisted institutions was rated highly.

Government sources (including agencies assisted by A.I.D.) were, however, the most important source of services in three specific areas: trade shows, navigation of government regulations, and, for local firms, buyer contacts. Two programs, neither assisted by A.I.D., provided most of this help: the Department of Export Promotion program in Thailand (Footnote 6) and the National Agency for Export Development in Indonesia.

Private sector sources were the main providers of startup assistance for all categories of firms and for the early stages in the search for buyers and partners. Not-for-pay sources, particularly personal contacts and trade associations, were key sources of help for local firms.

The key role of buyers and foreign partners cannot be overemphasized. Their close relationship with local firms enables them to tailor their assistance for greatest impact. Buyers and partners provided only 25 percent of the total assistance in contact making, but firms reported that 94 percent of their assistance had an impact compared with 58 percent for government sources and 68 percent for other private sources. Buyers and partners provided two-thirds of all technical assistance for production, and 91 percent of this assistance had an impact. Foreign partners in joint ventures were naturally more valuable than buyers working with local firms, and trade associations and government agencies were as important as buyers for the latter group.

### 3. MATCHING SERVICES TO NEEDS

What have we learned from the survey about the role of services in expanding exports and investment and of donor support in making such services available? The survey data alone cannot answer these questions, but they do point clearly to several issues deserving further consideration. To interpret the survey's evidence on these issues, this section seeks to address two related questions:

1. Based on survey evidence, did A.I.D.'s

service-provision strategy in Asia respond to firms' unmet needs?

2. Does survey evidence suggest ways to better match services to the needs of firms engaged in the export and investment process?

A related issue is raised by the study finding: Although firms sought the types of services A.I.D. provided in Asia and reported that these services had an impact, they nonetheless assigned much less importance to A.I.D.-supported assistance than did their counterparts surveyed in the CBI region. This apparent contradiction demands an answer.

Analysis of the survey data suggests that this contradiction is more apparent than real. Companies in both regions generally reported using the same services and reported a similar degree of impact from services received, but A.I.D.-supported agencies were much less of an important source in Asia than in the CBI region. This reduced importance appears to derive from the smaller size of the A.I.D.-supported programs in Asia, both absolutely and relative to the scale of the economies in which they operated.

#### Did Service Strategies Respond to Unmet Needs?

In attempting to assess the match between services provided and firms' needs, two criteria must be examined:

1. Did firms report that the service is needed? That is, is the service sought and used by firms and reported by them to have had an impact on their success?
2. Do responses from firms indicate that the service is available elsewhere? That is, would provision of the service by a promotional agency (or other chosen mechanism) duplicate or compete with services already available in the private sector or elsewhere?

These criteria are necessary but not sufficient conditions for including a particular service in a promotional program: a service may be needed by firms and be unavailable to them but it still may be unsuitable for support because of implementation issues, donor policy concerns, or other factors.

The survey findings suggest that the services A.I.D. provided met the first criterion, at least in Indonesia and Thailand. To the extent that the survey



explains the programs' low impact, the problem appears to lie not so much in the choice of services as in the provision of services to firms that either could not use them or could not use them effectively. {Footnote 7}

In Indonesia, the local consulting services element of the program funded a range of services (market research studies, assistance with government approvals, and in-country partner search and deal making, particularly). These services are high on the list of services that joint venture firms use (14-17 percent of international firms sampled cited impact from these services and obtained them from private sector sources). Firms were able to obtain such assistance without A.I.D. support, however. {Footnote 8}

The program in Thailand and the training component of the Indonesia program sought to use trade or investment missions to develop buyer contacts or make deals. Again, the overall concept helping local firms match up with U.S. firms is in line with survey findings on the most needed kinds of assistance, but the way in which the service was delivered reduced the impact to virtually nothing. In Thailand, the process, both for selecting firms and for matching them with potential U.S. partners, was weak (in part because BOI viewed the program not as a buyer- or investor-search program but rather as a general promotional program). Moreover, the in-country survey showed that the mechanism chosen trade missions to the United States was much less effective (and potentially much more expensive) than trade show programs or referrals in linking firms to buyers.

The survey of A.I.D.-assisted firms in Indonesia revealed that most of the companies that participated in the BKPM program's training component were in fact not ready to begin exporting to the United States. They found the program useful, in part because it clarified for them what they needed to do to become exporters, but none of them had progressed to that stage at the time of the study.

Overall, the survey suggests that services at the beginning of the export and investment process appear to meet the two criteria stated above better than those later in the process. Services in the information and contact-making categories are heavily used and may not be available from other sources. For foreign firms, this translates to the provision of information about the country and the sector and to help in finding local partners; for local firms, help in finding buyers is the single most critical requirement. These services are generally not provided by the for-profit private

sector in part because making money from these services is difficult, in contrast to services needed later in the process. At the same time, these are the services that have great potential to expand the number of local firms able to export successfully and to begin new joint ventures with foreign partners.

In short, the strategy used in the BKPM and BOI projects<sup>9</sup> providing information and contact-making assistance<sup>10</sup> is supported by the survey, but the government-based and consulting-firm-based tactics chosen to implement this strategy were not effective. {Footnote 9}

### What Was the Role of Services in the Investment and Export Process?

This study was not designed to describe the investment and export process, but the 150 interviews conducted in India, Indonesia, Thailand, and the United States yielded useful insights into how the process works. This section seeks to capture some of these insights, which remain of necessity impressionistic. This discussion is intended to respond to the study finding that the projects examined were based on misperceptions regarding how firms seek and take advantage of opportunities. It is organized around three basic findings derived from the survey reported in this study.

### Firms Rely on Their Network of Business Associates for Their Primary Source of Assistance

Key services, such as technical assistance, market information, and business contacts, are provided predominantly by business partners (including trade associations, friendships and informal network contacts, agents, distributors, suppliers, customers, and licensors, as well as formal joint venture partners). Key services are not provided nearly to the same degree by government agencies or nonprofit agencies nor are services usually obtained from for-profit professional service firms (e.g., lawyers and consultants).

Sometimes exchange of information takes place formally. Licensors regularly send their staff to help a licensee apply the technology and market the final product. They provide this service because it is in their interest: license fees are often based, in part, on sales, and a licensee that does well is a more valuable customer than one that fails. Sourcing contracts {Footnote 10} also creates a strong mutual interest: a U.S. manufacturer seeking to source a part

overseas has a strong and direct interest in finding a competitive and reliable supplier and then building a strong relationship with that firm. The U.S. firm also has ready access to technical personnel (its own staff) who know the technological requirements thoroughly and can provide highly targeted technical assistance.

Firms also learn from each other informally, not least through the movement of professionals and managers through the system. One-quarter of the companies reported that they knew of employees who had left their firms to start their own businesses.

### Business Relationships Grow and Evolve Over Time

Although export promotion, import promotion (i.e., promotion of U.S. exports), and investment promotion are different in the short term, the distinction among them blurs in the long term, because close business ties in one area readily evolve to include one or both of the others. In particular, an existing agent/distributor relationship is one of the most likely sources for a joint venture to manufacture in country. U.S. firms seeking to manufacture overseas naturally turn first to the business partners they know and have grown to trust over the years. These partners also bring critical resources to a potential joint venture: knowledge of the local market, management expertise, and capital accumulated at least in part through the agent/distributor arrangement. A U.S. firm without established agent/distributor relationships is not as good a candidate to leap into overseas investment as a firm with long experience.

These relationships are much more important in Asia (where the business community is well developed and capable) than they are in Central America, the Caribbean, or other less developed regions, where local partners bring fewer resources to the table.

The prototype process that appears to underlie some of the projects examined<sup>1</sup> where a U.S. company decides to go overseas, collects information, explores the alternatives, and makes its decision all in a short and neatly defined time period<sup>2</sup> is the exception rather than the rule. Each of these steps is followed, more or less in order, but the information-collection stage may be a protracted process involving several years of export sales to explore and build the market. Even the decision stage may stretch out over months or years because of unforeseen events in the country, within the parent company, or in the broader economic environment.

### International Ventures Are Fragile in Their Early

## Stages

International business deals have a pronounced tendency to fall apart before they get going, particularly if large distances (physical or cultural) are involved. Large firms are continually monitoring developments in their markets to look for opportunities, but this activity stretches their resources to the point where only very promising opportunities make it into the hopper for active consideration. Many potential deals are dropped simply because one side or the other fails to pursue them, as the BOI project demonstrated.

For small firms, the problems are different, but the result is the same. Lacking experience internationally, and often lacking a commitment to international business, they are easily discouraged by any problem or barrier encountered. All of these problems are magnified in dealings with Asia, where real barriers of time and distance, and intangible cultural and structural barriers, must be overcome repeatedly to bring a deal through to completion.

This fragility is one of the many reasons that for-profit professional service firms generally stay out of the investment process until it is well along the road to startup. Because both consultants and their clients are aware that most opportunities identified will not lead to completed deals, both are hesitant to make nontrivial investments in the early information-gathering or contact-making stages of the process. Client firms are generally unwilling to pay for services until they are fairly sure they are going ahead. Consulting firms are hesitant to provide services early in the process as loss-leaders to attract clients, because they will usually lead only to losses.

Taking the three factors together, it is clear why "buy-sell" relationships, such as agent/distributorships, sourcing contracts, and licensing agreements, are easier to establish than joint ventures, at least in countries where the local private sector is relatively well developed and local markets are important.

The evolutionary nature of private sector relationships suggests that, over the long term, export promotion and investment promotion are two sides of the same coin. Help for local firms in finding buyers creates jobs in the short term, but it also repeatedly leads to foreign investment in the future. The survey's finding that buyers are key sources of current export assistance and future investment suggests that services to encourage these arrangements ultimately

promote both export growth and foreign investment.

Footnotes:

1. It was not possible to obtain a comprehensive list of all exporters in the countries, because no one source systematically gathers firm-specific information. The procedure in each case was modified to reflect the realities of the lists available for the sample. In most cases, the team contacted (or sought to contact) every firm that could be identified as an exporter and recipient of nontrivial assistance.
2. Service use was examined based on six paired categories of firms: local and international, agricultural and manufacturing, A.I.D.-assisted and other. Nineteen services were used by at least 40 percent of the firms in one or more of these categories.
3. These categories were formed by consolidating the larger list of service providers used in the questionnaire (17 sources were used in Thailand, for example). The number of service-provider categories differed slightly among the countries because of differences in institutional arrangements.
4. Internal sources were excluded because the team believed that including services that firms had been able to handle alone would provide a less useful guide to future design of service delivery programs.
5. A.I.D.-assisted firms assigned greater credit to A.I.D.-supported agencies than other sampled firms did: an average of 10 points out of 100 compared with 3 points.
6. Thailand's Department of Export Promotion received the highest rankings of any government program. The department helps local firms link up with foreign firms primarily by providing lists of possible contacts (sometimes in cooperation with the Thai Embassy commercial attaches abroad) to firms that enquire and by assisting local firms in attending trade shows overseas.
7. It would be inappropriate to judge the service mix provided in India by this criterion, because the project was not directed at promoting exports or investment. Instead, the service provided in India was designed to encourage joint U.S.-Indian research and development.
8. The project implementation mechanism required consulting firms to bill at lower than usual rates. Firms therefore had incentive not to use A.I.D. financing to provide services to potential paying clients. And contractors could not use A.I.D. funds to attract new firms to Indonesia. Instead of providing new services, A.I.D. funding

largely duplicated an existing private sector function.

9. In view of A.I.D.'s current approach to more direct collaboration with the private sector, there may also be ways in which the second criterion can be met by supporting private sector activities, rather than by using government or nonprofit agencies to fill gaps in such services. For example, in developing future promotional programs in Asia or elsewhere, A.I.D. might consider joint funding for technical assistance provided by U.S. buyers and joint venture partners, an approach reportedly used with success in Singapore. This and other opportunities to provide services with a high level of immediate impact and good potential for spinoff effects in the larger economy will be explored in the synthesis paper.
10. The term "sourcing contracts" refers to the practice of contracting for production according to specifications provided by the buyer, often with the close supervision and participation of the buyer. This type of transaction implies a close relationship between the buyer and the seller and contrasts with the model of the independent exporting firm, which designs and produces a product on its own and then sells the product through several market outlets.

## APPENDIX A

### FINDINGS AND DATA ANALYSIS

#### Use and Importance of Services

##### Which Services Are Used the Most?

Three services stand out as most frequently used by local exporters and foreign investors: foreign market information, technical assistance for production, and assistance in making contacts with buyers. Approximately three-fourths of the firms sampled used these services, and between 50 percent and 60 percent of the firms obtained the service from outside sources.

The next group of most frequently used services includes a combination of information (country regulations, sectoral, overseas representation), other contacts with private buyers and partners (directories, trade shows), and technical assistance for marketing. As shown in Table A-1, these services are used by more

than 40 percent of the firms interviewed.

#### Which Services Are Most Important Overall?

Frequency and impact of service use are closely correlated: Services used the most also have the greatest impact. The five most critical services are foreign market information, technical assistance for production, buyer contacts, information on the country, and information on the sector. These services are used and considered to have an impact by between one-third and one-half of firms interviewed (see Table A-2).

Particularly noteworthy is the overall effectiveness of the top five critical services. Between 80 percent and 90 percent of the firms that use one of these services reports that the service had an impact. This is higher than the 70 percent average reported for all services used.

At different stages in the export and investment promotion process (e.g., information collection and startup), firms seem to use roughly the same number of services that are considered to have an impact. For example, early on, when firms need to learn about a particular country or market, the average number of information services used and considered to have an impact is 2.0, or about 25 percent of the highest impact services received (7.6 in total, see Table A-3). Another category of services, Private Sector Contact Making, is also used early on to identify potential buyers and local partners. Along with information services, surveyed firms also received 25 percent of the high impact services from the Private-Sector-Contact-Making category.

Later in the process, firms do not use as many high impact services, although the actual numbers are only slightly lower than those found for the first two stages of information and private contact making. Both preexport/investment support services and technical assistance services are used once a company has targeted a particular country for investment or product for export. Each category represented around 20 percent of all impact services. Finally, only about 10 percent of the high impact services involved government facilitation.

Information and technical assistance are reported to be the most effective. Firms said that more than 80 percent of services used in these two categories had a performance impact. The categories with the least impact-per-service use are government facilitation and preinvestment/export support.

## Relationship Between Firm Characteristics and Service Impact

Not much difference exists between the type of firm and the type of services used and considered to have an impact. Nearly all local, international, manufacturing, and agribusiness firms relied the most on information and private- contact-making services. The major differences were the number of services used and considered to have an impact. On average, international and agribusiness firms use the most impact services. As shown in Table A-4, international companies reported an average of more than 9 high-impact services, whereas the average agribusiness firm reported slightly more than 8.

Local and manufacturing firms report the most benefit from private contacts (e.g., buyer contacts). About one in four of the highest impact services came from private contacts. International and agribusiness firms, however, report that information (e.g., foreign market information, country regulations) is most valued.

All firms—local, international, agribusiness, or manufacturing—benefit the most from the following specific services: foreign market information, technical assistance/production, buyer contacts, information on country regulations, and sector-specific information. As shown in Table A-5, between one-third and one-half of firms interviewed benefited from these services.

## Country Differences

The firms in all three countries—India, Thailand, and Indonesia—rely extensively on information services. In fact, more than 30 percent of the 19 services considered to have the highest impact involved information. Specific services considered important by all three countries are foreign market information and to a lesser extent overseas representation.

The Indian firms generally set themselves apart from the Indonesian and Thai firms in both overall service use and services that had the highest impact. In part, this may be because the Indian export sector has been far less dynamic than the Indonesia and Thailand sectors and because of the absence of foreign-owned companies in India (Indian policy prohibited majority foreign ownership at the time of the survey). In addition, the survey may not be fully comparable with surveys in the other countries. {Footnote 1}



The most significant differences in firm responses between India and the other two countries include

1. Low Number of Impact Services Received. Indian firms use significantly fewer services than Indonesian or Thai firms. The typical Indian firm uses only 4 outside services (i.e., services not provided by the firm itself) compared with nearly 10 services used by a Thai firm and 7 services by an Indonesian firm.

Relatively few of the Indian firms consider any one service to be critical. Only two services (foreign market information and technical assistance in production) are considered to have an impact by more than 30 percent of the firms surveyed. In Indonesia and Thailand six services were found to have an impact by more than 30 percent of the firms in each country.

2. Decreased Reliance on Private Contacts. Indian firms use fewer private-contacts services than Indonesian and Thai firms. Buyer contacts, in particular, are considered significantly less important. Only 15 percent of the Indian firms compared with about one-half of the Thai and Indonesian firms said that buyer contacts were important.

3. Limited Impact From Trade Shows. Indian firms use trade shows extensively, but unlike their Indonesian and Thai counterparts, Indian firms consider trade shows to have much less impact. Only about 10 percent of the Indian firms felt trade shows were important, compared with 25 to 35 percent of the Indonesian and Thai firms.

4. Decreased Reliance on and Satisfaction With Government Services. Government services are not as important to firms in India as they are in Thailand and, to a lesser degree, in Indonesia. About 70 percent of the services provided by government agencies in Thailand and Indonesia are considered to have an impact. This is significantly higher than the 40 percent effectiveness figure associated with firms in India.

5. Lower Satisfaction With Services Received. Overall satisfaction for services received in India is significantly lower than that found in Indonesia and Thailand. Only about 60 percent of services India received are considered to have an impact, compared with nearly 80 percent in Thailand and Indonesia.

There are fewer differences in service use between Indonesian and Thai firms. The five most important services used from outside sources are the same in both countries. Between 40 percent and 60 percent of the

Thai and Indonesian firms rely on outside service providers for a mix of information, private contacts, and technical assistance.

Some evidence exists, although not definite, that Indonesian firms have a slightly greater need for technical assistance than do Thai firms and that Thai firms rely slightly more on buyer contacts, foreign market information, and sector-specific information. About 80 percent of the Indonesian firms report that technical assistance in production is critical for exports. In Thailand about 60 percent say that the same assistance had an impact. In terms of buyer contacts and foreign market and sector-specific information, between 60 percent and 70 percent of Thai firms consider these services to be critical compared to about 50 percent of the Indonesian firms.

These findings point to two general conclusions. First, the number and types of services local firms require may increase as one moves into countries with a more favorable policy environment and developed export sector. Firms in Thailand and Indonesia (the two more favorable economies) use and depend more on outside services, particularly information and private-contact services, than do Indian firms. Second, the level of production skills of local firms may be better developed in more open and export-competitive economies, such as Thailand's. Further development of export markets in countries such as Thailand depends on acquiring more sector- and market-specific information and less on receiving specific production-related technical assistance.

A final finding suggests that the countries of Southeast Asia still have considerable room for improvement in the regulatory and administrative structures governing foreign investment. As shown in table A-5, both local and, to a greater extent, international firms require outside assistance to resolve procedural problems.

The breakdown of service use by country shows that firms operating in Thailand—the country supposedly with the fewest restrictions and smallest bureaucracy—use the highest number of services to resolve procedural problems. In all four procedural areas, between 25 percent and 45 percent of the Thai firms reported using services that helped them deal with government regulations. Particularly significant is the help received in dealing with customs. In Indonesia, the most significant area is receiving assistance in obtaining government approvals. More than 30 percent of the firms consider this assistance important. In India, 10 percent or less of the firms surveyed use any

of these services.

These findings may be explained by one or more of the following reasons: First, the results may be skewed because the country teams employed different survey techniques. In particular, the Thai survey team was aggressive in asking firms if they had used government facilitation services. A second explanation might be that red tape and regulations are so bad in India that firms there will rely only on themselves to resolve government procedural problems. Finally, and related to the second reason, is the possibility that government intervention in Thailand and Indonesia is more transparent than in India. Therefore, there are clearly defined rules and procedures for responding to government requirements. This clear definition makes it easier and more desirable for firms to contract with outside service providers. Thai and Indonesian firms have a higher degree of assurance that a paid-for government facilitation service will effectively resolve a problem. In India, such a level of confidence may not exist.

#### Footnotes:

1. Many of the Indian firms were not forthcoming in providing detailed information on services received and the India survey team did not as aggressively question firms about the use of outside services, partly as a result of the initial design of the questionnaire. Finally, unassisted firms in India had, on average, been exporting much longer than firms surveyed in the other countries. Employees of such firms may not recall all the services they used when they first started export operations.

## APPENDIX B

### OVERALL IMPACT OF SERVICES

#### Performance by Category of Firms

There are two measures of firm performance included in the survey. One focuses on increases in exports, the other on increases in employment. In both categories, local and international firms have experienced healthy annual growth rates.{Footnote 1}

The average annual growth rate in exports for the total sample for 1986- 1991 was more than 20 percent. All firms experienced growth rates above 20 percent (see Table B-1). International firms, in particular, experienced the highest annual growth rates of more

than 30 percent. There is little difference between the growth rates of A.I.D.-assisted firms and other firms; both categories of firms averaged annual growth rates of slightly less than 25 percent.

For the next 5 years, the average annual growth rates are expected to continue above 20 percent per year, although certain types of firms—local and agribusiness firms—are anticipating slightly lower growth rates of around 15 percent per year. The most optimistic growth scenarios are for foreign and A.I.D.-assisted firms. These two groups expect growth rates of more than 30 percent per year.

The growth trends for employment are expected to be less. This is particularly true for forecasted employment over the next 5 years. The average employment growth rate for the total sample for the period 1986-1991 was around 20 percent (see Table B-2). These averages were significantly lower for local agribusiness firms and slightly higher for international, manufacturing, and A.I.D.-assisted firms. Agribusiness and local firms had the lowest growth rates (9 percent and 14 percent respectively), whereas international and A.I.D.-assisted firms experienced the highest growth (around 25 percent).

Over the next 5 years, the forecasted annual employment growth rate is expected to drop significantly to below 10 percent. The lowest growth rates are anticipated in foreign and non-A.I.D.-assisted firms. Local and A.I.D.-assisted firms are expected to achieve between 6 percent and 11 percent annual growth.

These trends suggest a few scenarios. First, firms may increasingly be seeking to shift to more capital-intensive production. This scenario is supported by firms' statements that they want to acquire more sophisticated technology and shift to higher value-added products. Many firms mentioned that such a shift would require the transfer of technology and, perhaps, the formation of more permanent cooperative relationships with foreign companies (e.g., joint ventures, licensing agreements).

Second, employment growth will slow with increases in productivity. This scenario suggests that countries, such as Indonesia and Thailand, will use more skilled labor and try to increase productivity to compete with lower priced employment in other countries in the region (e.g., Bangladesh, Vietnam).

A third explanation is that annual growth rates will slow simply because growth rates for mature firms are typically slower than those for startups. Many of

the firms interviewed started operations around 1986. The base for calculating annual export and employment growth rates of startup companies is very small. As companies grow and become established, the expected annual growth rates tend to slow down.

#### Is the Difference in Performance Related to Services Received?

This analysis does not try to statistically correlate specific service use to export and employment performance by firm subcategory. {Footnote 2} Rather, it looks at the overall level of attribution that firms gave to outside services for their export and investment success.

As shown in Table B-3, the sampled firms report that outside services account for about two-thirds of their exports (63 percent). This is significant and points out the overall impact that service providers have in facilitating export and investment growth.

Firms give most of the credit for export success to their own resources and business partners. Buyers and foreign partners are critical to the export process. Together they account for 30 percent of the attribution allocated. Next in importance are local government agencies, which account for about 14 percent, and private sector sources, which are credited with about 9 percent.

#### Institutional Attribution and Ranking by Exporting Firms

All firms surveyed gave the same order of importance for service providers: Internal sources of a firm combined with business partners are the two most important sources followed by government agencies and other private sector sources.

Local, manufacturing, and agribusiness firms most closely match the distribution of attribution for the total sample. The most notable differences involve the international firms (see Table B-4). These differences include

Dependence on foreign partners. International firms attribute 30 percent of the credit for export success to foreign partners.

Limited impact of government sources. International firms credit government agencies with less than 10 percent attribution.

Slightly increased use of for-pay private sector services. The international firms say that for-pay private sector services (e.g., consulting services) had slightly more impact than the overall sample of firms (7 percent compared with 5 percent).

The role of government agencies assisted by A.I.D. is limited, regardless of the firm type. Most firms credit the Thai Board of Investment and the Indonesian Board of Investment Coordination with a little less than 5 percent of attribution. Agribusiness firms are affected the least by these groups (less than 1 percent attribution).

The government agencies that had the best success in stimulating local exports are the National Agency for Export Development in Indonesia and Department of Export Promotion in Thailand. Both agencies play an important role in export promotion by organizing trade shows for local exporters. Nonetheless, the overall attribution given to these groups by local firms was only about 7 percent.

#### Footnotes:

1. The employment and export data were collected by asking firms what their levels of exports and employment were 5 years ago, what they are currently, and what they will be in 5 years. The data are not precise because many firms had difficulty anticipating growth for 5 years. Also, in the case of employment estimates some firms gave total labor estimates (skilled and unskilled) whereas others gave only unskilled-labor estimates. Some firms gave total labor estimates for the whole company instead of only for the export-oriented product line.
2. A statistical correlation was attempted in the Latin American study, but it was not possible to establish robust correlations to individual services. Another reason for not attempting any significant tests in this study is that A.I.D.-assisted firms did not outperform other firms. Therefore, there is no overriding reason to associate services received from A.I.D.-financed institutions to firm export performance.

## APPENDIX C

### ALTERNATIVE SERVICE PROVIDERS

The Asia survey focused on four types of service providers: buyers and foreign partners, government agencies, other private sector suppliers (including "not-for-pay" institutions, such as chambers of commerce and "for-pay" providers, such as consulting firms), and the firm itself. This discussion focuses primarily on the first three groups outside providers of services. The analysis is important for developing a service intervention strategy. Services provided by the firms are in areas in which there is typically no need for duplication with additional assistance from outside agencies like A.I.D.

### Institutional Sources Provide the Most Important Services

The most important providers of services are buyers and partners, followed by other private suppliers and government agencies. Buyers and partners provide 42 percent of all services used and considered to have an impact (see Table C-1). Other private sources account for one-third of the high-impact services; government agencies provide one-fourth of the services.

This general breakdown of sources highlights some important findings regarding the stage at which service providers play an important role in the investment and export process. The analysis organizes the stages of the investment/export process according to the following categories of service: information, private-sector contacts, preinvestment/export support, technical assistance, and government facilitation (for approvals).

Firms depend on buyers and partners to provide critical information early in the process. As shown in Table C-1, more than one-half of the services in the information category come from buyers/partners. The role of buyers and partners is also most significant later on in the export process. Nearly two-thirds of the technical assistance (production, marketing, and management) comes from buyers or partners.

Private sector services are most important in the middle of the export/investment process*i.e.*, pre-investment and export support. Nearly three-fourths of the key services in this category come from private sources. This category largely consists of legal, accounting, and credit assistance and market research, which are services largely provided by for-pay private sources. Private sector services*particularly not-for-pay private contacts and trade associations* also play a significant role in providing contacts and facilitating government related work.

Government agencies are important in two areas: private contacts and government facilitation. Government agencies are particularly useful in organizing trade shows and helping local exporters contact buyers. They also play an important role later in helping firms successfully wind their way through the maze of regulations facing new exporters.

#### Buyers/Partners Are the Most Effective Service Providers

The importance of buyers and foreign partners cannot be overemphasized. For the top five services considered to have had the highest impact, buyers and foreign partners were the key source providing between one-half and two-thirds of these services (see Table C-2). Government agencies and other private sources supply about 20 - 25 percent of these services.

Another way of measuring the importance of buyers and foreign partners is to analyze the percentage of services these groups provided that had an impact. Table C-2 compares the overall impact of services provided by buyers/partners with the impact of services from government agencies and other private sector groups. Buyers and partners were particularly effective in providing information, private contacts, and technical assistance. For example, although buyers and partners provided only about 25 percent of the total assistance received in contact making, 94 percent of these services were considered to have had an impact. This is significant especially compared with the effectiveness of contact-making services from government agencies and other private sources: only 58 percent and 68 percent of these services, respectively, were considered important.

Clearly, the close relationships that buyers and foreign partners form with local firms enable them to tailor their assistance for maximum impact. The only areas in which buyers or partners were marginally less effective is in government facilitation and pre-investment/export support.

The areas in which government agencies appeared to have the greatest impact are information and government facilitation. More than four of every five services provided on country- and sector-specific information were considered to have an impact. This ratio dropped to about two out of three services for government facilitation.

Finally, the areas in which private sector sources were reported to be most useful are technical



assistance and government facilitation. More than 80 percent of services provided in these areas had an impact.

#### Differences Between Public and Private Sector Service Providers

The previous discussion points to two major conclusions. First, private sector sources of services are used more frequently than public sector sources. Second, private sector sources have a higher impact than those provided by government agencies.

These two conclusions are clearly demonstrated in the aggregate breakdown of public and private sources presented in Table C-3. Of the resources available to firms both internal and external more than half of the key services used by firms are provided by private sector sources. Public sector sources account for fewer than 20 percent of the impact services provided.

Private sector sources are also more effective than public sector sources. Four out of five services provided by private sector sources had an impact, compared with two out of five provided by public sector sources. Together, these findings show a high correlation among the frequency of use, level of impact, and satisfaction with services.

Firms generally express a fairly low opinion of government assistance programs. Only one of the public-sector programs examined rated a "good" from the firms surveyed (see Table C-4). Most programs are rated as "fair" by local firms and as "poor-to-fair" by international firms (Thailand's Board of Investment program, which international firms rated fair-to-good is the exception). Thailand's Department of Export Promotion program received the highest ranking overall. This program helps local firms to link up with foreign firms primarily by providing lists of certified exporters to firms that enquire (usually in cooperation with the Thai Embassy commercial attaches abroad) and by helping local firms to attend trade shows overseas.

Based on results of the Latin America experience, the Asia survey did not ask firms, "Would you be willing to pay for this service?" Consequently, it is impossible to say with any certainty whether firms would be willing to pay for government-sponsored services. The only data on this subject concerns government-sponsored trade promotion programs in Indonesia and Thailand. In both countries, it appears that these services were highly valued by firms. In the case of Indonesia, many firms reported that competing private trade promotion programs were not as

well organized nor of the same high quality as those organized by the government programs. Some even praised the government for proposing that private trade show promotions be regulated to ensure high quality standards.

The fact that firms speak more highly of the government programs even when there are private firms that provide trade show promotion services suggests that the government-sponsored programs are competitive and more responsive to users. But this anecdotal praise still does not shed more light on whether firms would be willing to pay the full cost of government-sponsored trade shows. To date, Indonesian firms pay only for their own transportation and for the transport of samples to an overseas trade fair. All other expenses are subsidized by either the local government or a foreign government sponsor. Without increasing the fees charged to participants, government programs will not be able to either gauge the effective demand for their programs or develop financially self-sustaining programs.

#### Key Relationships Between Firm Characteristics and Choice of Service Providers

The most notable differences between the type of firm and institutional sources for the most important services concerns local and international firms. Both these types of firms rely on buyers or partners for important services. However, international firms depend almost completely on these sources for the five services considered to have the highest impact, whereas local firms seem to rely evenly on buyers, partners, and other private and government sources.

As shown in Table C-5, buyers and partners provide between one-third and two-thirds of the five most important services used by local manufacturing and agribusiness firms. Particularly in the areas of foreign market information and technical assistance for production, buyers and partners provide more than 60 percent of the services.

The role of government and other private sources is most pronounced in the categories of buyer contacts, information on the country, and information on the sector. Government sources provide more than one-third of the services in these areas. Other private sources—mostly private contacts—play the most important role in providing buyer contacts.

The top five services reported by international firms to have the highest impact come almost exclusively from buyers and partners (see Table C-6).

Partners play the most critical role in making contacts with buyers and in providing technical assistance for production. Unlike local firms, government sources account for fewer than 10 percent of all services (0 percent in the case of buyer contacts and technical assistance). Other private sources do not play much of a role except in the provision of information about a country.

All the firms surveyed—manufacturing, agribusiness, international and local—rate the buyers and partners as providing the most effective services (see Table C-7). In total, buyers and partners provide about 90 percent satisfaction (i.e., about 90 percent of the firms that used services from these groups considered them to have had an impact). Manufacturing and international firms found buyers and partners the most effective in providing technical assistance and country- and sector-specific information. Between 95 percent and 100 percent of the services used in these categories were reported to have had an impact.

Next in service effectiveness are other private service providers. Overall, more than 80 percent of the agribusiness firms find them particularly effective. Specifically, agribusinesses said these sources are 100 percent effective in providing technical assistance. They are also considered 100 percent effective by international firms in providing country-, sector-, and foreign-market information.

Local agribusiness firms are also most likely to use and appreciate the services provided by government agencies. Government sources, overall, are considered 70 percent effective by agribusiness firms, which is slightly higher than that found for manufacturing and international firms. They are considered particularly effective in the areas of information (country-, sector-, and foreign-market-specific) and buyer contacts. In these areas, agribusiness firms consider 100 percent of the services provided to be effective. The only area in which government services are considered marginally effective with agribusiness firms is in technical assistance for production (50 percent).

#### A.I.D.-Supported Service Providers

Survey evidence reveals that the overall impact of A.I.D.-supported service providers was extremely modest. Out of more than 1,300 services used by the firms sampled, fewer than 4 percent (about 50 services) were provided by A.I.D.-supported institutions.

The specific country and institutional breakdown of percentages of services used is as follows: India's

Program for the Advancement of Commercial Technology, 6 percent of total services used; Thailand's Board of Investment, 6 percent; and Business Advisory Indonesia, Resources Jaya Teknik Management Indonesia, and PRAGM {Footnote 1} programs, 1 percent.

The low level of services provided by A.I.D.-financed institutions correlates to the low number of services used by firms considered A.I.D.-assisted in the survey sample (9.4 for assisted compared with 10.9 for all other firms). A.I.D.-assisted firms used only 1.1 services provided by government agencies, compared with 1.9 by other firms. The high use of government services by the other firms is attributable in part to the presence in the sample of a large number of local firms that participated in highly rated, non-A.I.D.-assisted government programs—namely the Department of Export Promotion in Thailand and the National Agency for Export Development in Indonesia.

Export and employment performance of firms also shows that A.I.D.-assisted firms do not outperform others. In fact, in unexpected ways, A.I.D.-assisted firms are much different from other firms. A.I.D.-assisted firms tend to be much larger than other firms with more than twice as many sales (\$45 million compared with \$20 million for all other firms) and employment (1,700 compared with 800). But overall exports for A.I.D.-assisted firms are less (\$8 million compared with \$11 million) and as a percentage of total sales (45 percent compared with 71 percent). A.I.D.-assisted firms are also more dependent on unskilled labor (91 percent of employees compared with 45 percent for all other firms).

Both A.I.D.-assisted and other firms performed about equally well over the past 5 years, with exports growing at more than 20 percent per year and employment at slightly less than 20 percent per year. A.I.D.-assisted firms anticipate more growth in both exports and employment over the next 5 years than do other firms. A.I.D.-assisted firms expect exports to quadruple, whereas all other firms expect them to double.

Despite the differentials in project export and employment growth, other firms will remain more export oriented than A.I.D.-assisted firms, exporting a projected 81 percent of their output compared with 51 percent for A.I.D.-assisted firms.

## Country Differences

The countries surveyed had many similarities as alternative service providers. The most significant is

the important role of buyers and partners. Firms in all three countries considered that buyers/partners were providers of effective services more than 90 percent of the time. Foreign partners were most important to Indian firms and Thai firms. Buyers are most important to Indonesian firms. The most notable differences include the following:

1. Private Sector (for pay and not-for-pay) plays the largest role in Indonesia:

The private sector is most active in Indonesia. Excluding buyer and partner sources, about 25 percent of all services are provided by private sector sources in Indonesia. In India and Thailand about 20 percent of the services used are provided by private sources.

Consulting firms provide about 8 percent of all services compared with 5 percent in Thailand and 3 percent in India.

Overall, the effectiveness of the private sector in Indonesia is rated slightly higher than in Thailand and India. Seventy-six percent of all services provided by the private sector are considered important in Indonesia, compared with 69 percent in Thailand and 57 percent in India.

2. Government plays the most active role in Thailand.

About 25 percent of the services in Thailand are provided by the government compared with 12 percent and 20 percent in Indonesia and India respectively.

Specific services in which the Thai Government is most active (i.e., provides more than 30 percent of the services) include country and sector-specific information, trade shows and missions, and buyer contacts. The Indonesia and India Governments are most active in organizing trade shows.

3. Government agencies and not-for-pay private services are the most effective in Thailand and Indonesia.

About 70 percent of the government and not-for-pay private services provided to Thai and Indonesian firms are considered to have an impact. In India the average is about 40 percent for government agencies and 33 percent for not-for-pay private sources.

Local government agencies and personal contacts in Indonesia and Thailand were credited with between 5 percent and 7 percent of exports success (information not available for India).

The evidence above suggests that Thai and Indonesian firms are more likely than their Indian counterparts to use more private sector and government-sourced services. These patterns are consistent with the policy environments in each country. The export-oriented policy environments in Thailand and Indonesia appear to facilitate the competitive development of export-support services. They also probably encourage firms to actively seek out opportunities in export markets. As a result, these firms use whatever services are available to make their exports happen. Greater use may also be spawned by the greater availability of services. The private sector in both Indonesia and Thailand are probably better developed to provide services to firms.

The fact that Thai and Indonesian firms are more likely to use government-sourced services may also be tied to the policy environment. First, similar to the rationale previously discussed, firms engaged in export market development probably seek out services wherever they can find them, including both government and private-sourced services. Second, government programs in Thailand and Indonesia may be better because the Governments have made export promotion national priorities. Therefore, people administering these programs feel more obliged to make the programs work effectively. Third, the larger number of private service providers in Thailand and Indonesia means that government programs have to necessarily be more responsive to users. The Thai and Indonesian Governments are viewed as proexport and willing to provide useful services to promote exports. In order to sell these services, however, they must complement services provided by private sources. The Indian Government, however, may be viewed with distrust or considered of poor quality because of the lack of competition and alternative service providers.

#### Footnotes:

1. A U.S. consulting firm providing training to Indonesian firms.

## APPENDIX D

### PAPERS PREPARED FOR THE EXPORT AND INVESTMENT PROMOTION SERVICES ASSESSMENT

Benedict, Peter, Joe Ryan, and Charles Bell. 1993. Export Promotion in Indonesia. A.I.D. Technical Report No. 6. Washington, D.C.: A.I.D.

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